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Sheldon, James

U.S. exports and the need for America's investment...

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United States Exports
And the Need for
America's Investment in Foreign Securities

By James Sheldon,
of
Lee, Higginson & Co.

21 April 1920 Sun

United States Exports And the Need for America's Investment in Foreign Securities

THE comment is frequently made by advertising experts and other business men that in our advertising and our letters, we bankers write to each other, and not to the public; that we are technical and uninteresting, and therefore it is the endeavor of this article to avoid technicality and speak to the man in the street about the "Need of America."

Sitting here by the fireside, let us consider how America looks in this year of grace. We have a portion of this world 3,000 miles long and 1,000 miles wide, in the best possible climate so stimulating everyone to exertion that American push and American energy are axiomatic. We have coal, iron, copper, water powers, great navigable rivers, well placed harbors, and 100,000,000 people, living under laws which they themselves have made, to insure to each the profit of his labor. They may not be the best laws conceivable, but they are probably as good as those under which any nation has lived in any century since the Flood. We have farms and fac-

tories making record production. We are actually sending coal to Newcastle, and we have not only one job for every man and woman in the country, but two.

In addition to all this, the fates in the last five years have dropped in our laps gold from tortured Europe, until we have now half the supply of the world. What are we going to do with it? Abraham Lincoln is quoted as saying: "The Lord shows what he thinks of money by the people he gives it to!" Prosperity is the test of character quite as much as adversity. As an aftermath of war sacrifice, America, as well as Europe, is on a "joy ride"—an orgy of spending. A salesman returned to the office yesterday saying that he had sold a $1,000 bond to an East Side haberdasher who said, "I can sell no cotton shirts—they must be all silk! And the higher the price, the quicker they go."

Money is in strange hands. It burns in unaccustomed fingers. The best financial brain this country produced—Franklin—observed, "Put a beggar on horseback, and he rides to the devil." As an apostle of thrift, the banker has the most unpopular job in the world today. It is his function to make money earn interest—to keep it at work; to make $1.06 grow in safety where only $1.00 grew before. The idle dollar is no different from an idle locomotive, or an idle factory—they all spell waste. If our factories are to continue busy, if we are to continue to have

more jobs than we have operators, we must do two things—sell our surplus production, and save our surplus earnings.

Fifteen months ago we were all urging, "Liberty Bonds!—Borrow and Buy! Save and Pay!"—but saving is not an American habit; we are probably the most extravagant people in the world, and war profits and big wages make us more so. In 1914 we talked about our billion-dollar country; now our proposed budget is three and a half billions.

Our farms and factories are keyed up to record production, making more than we consume. We are face to face with the problem of selling the surplus—either that or slowing down production—idle factories; unemployment. We have been seeing results of inflation—increasing the supply of currency, running the printing press. It is singular how much we humans are like rabbits—we run in circles. France went through inflation two centuries ago. Under John Law, brilliant and unsound, she took the savings of a generation and dumped them into the South Sea and Mississippi Bubbles.

Spanish galleons carried the visible supply of gold from Mexico to Europe in the Sixteenth Century, and Spain has never recovered from the resulting inflation.

In 1896, we here were urged to have cheap money. Sixteen to one and free coinage of silver would cure all our troubles, we were

told. We now have a fifty-cent dollar. How do we like it? When we shorten the yardstick, prices go up, not down. We are beginning to perceive that there is no increase in wealth by increase in the amount of money; money is only the yardstick. Wealth is increased only by enlarged production and thrift. Work and save! The world has never discovered any other way. Probably no parable of the Great Teacher is more significant than the command of Him who had power to feed the multitude at the close of the feast: "Gather up the fragments, that nothing be lost."

Now if we are to go on with production, we must sell the surplus. If we don't sell the goods, we must stop making them and face closed factories, unemployment and depression. Europe wants our materials—food, cotton, coal, copper. She can pay in only three ways—with gold, or goods, or credit. She can spare no gold at present, and we do not want it—it would further increase our prices; she is not ready to ship goods, therefore she must have credit.

Credits the A B C of Trade

For two centuries the world has admired Great Britain's expanding trade—a nation of shopkeepers, they are called. She manufactured the goods, went out and sold them in the uttermost parts of the world, then her

ships delivered them. The world admired and envied, but her real skill was in her banking—in establishing credits. If the world wanted her goods, she was ever ready to lend the money; she would take "gold, or goods, or credit." You could "draw on London" and the bill could be sold there in the open discount market, the cheapest money market in the world; or Great Britain would buy bonds—Government, Municipal, Railroad, Public Utility or Industrial.

Trade is Service

Great Britain rendered great service; she manufactured, sold, shipped, insured, and delivered, but more than all, she financed. She was banker to the world. Her people have known better than any other people how to keep their money at work. They were taught to make geographical distribution of their investments. She loaned money in every corner of the world—she traded; she served. In the foundation of things is written "Quid pro quo." All things are reciprocal.

In spite of what the cook and the coal miner may say, there is a law of compensation. We do not get something for nothing. If we are to trade with the world, we must lend to the world. Recall, please, that we are considering the Need of America, not the Need of Europe—The Need of America's Participation in Foreign Securities.

Fifteen years ago a man walked into the office and said, "I have $50,000 to invest; offer me some suitable bonds, but nothing West of Buffalo!" Do not picture him as gray and wizened, close-fisted, narrow-minded. He was not over forty, a director in three banks, a graduate of a leading university, a frequent traveler to Europe, but his idea of safety was "nothing West of Buffalo," and probably today he would protest "nothing East of the Battery!" He is fairly representative of the American investor. He says, "I'll keep my money at home where it will be safe." It won't be safe in American industrials, for which he is at the moment so keen, unless we sell our surplus, and thus keep our people employed, our factories going, our cotton en route.

One reason call money has gone as high as 25% is that though Europe wants it, the South is carrying a great amount of cotton which it cannot ship. Cotton ties up the bank surplus. We cannot sell our surplus products unless we *finance* the sale.

What are We Going to do About it?

The need of America is to sell goods abroad. What are we going to do about it, you and I? The English pound sterling shows the pressure, selling at a discount of 20%. Please understand, this discount has nothing to do with British solvency; it merely

indicates the balance of trade against her, and her bankers regard it with some complacency as forcing economy at home, and forcing Europe to buy there and not in America.

You may regard morals as a part of religion, or you may believe morals to be merely the condensed wisdom of the race. In either case it is good morals, as well as good business, to lend a sound customer so that he may continue to buy of you. Trade is service. Duty and opportunity beckon from London, Paris, Brussels, The Hague, Copenhagen, Stockholm, Christiania. Europe is eager to buy, but without our extending credit she is up against an insurmountable wall.

The Goose and the Golden Egg

This is not a problem that the Banker alone can solve. It is the problem of Jones, Smith, and Brown; of the man in the street—the American manufacturer, farmer, planter, miner, business man—of you and me. We are no longer as a borrowing country sending money to Europe. We are not paying her interest or insurance, or freights or for foreign travel. This income has stopped with her, and she owes us huge annual interest payments. We are no longer borrower, but creditor. What are we going to do about it? If we trade with her, we must lend her the money. If we take our place in

world trade, we must take our place as world banker. We have grown up with the traditions and self-sufficiency of a provincial people. We must persuade each other that it is to everyone's interest to lend money abroad. The financial center has moved from the East along the shores of the Mediterranean from Tyre to Athens, Carthage, Venice, Amsterdam, and jumped across to London. All these great merchant peoples —these traders—have been of necessity great bankers.

The Solution

The solution of our problem is—Lend Money in Europe! A quarter century hence shall the historian write, "Complacent America took her talent and hid it away in a napkin"?

January, 1920.

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